



Annual Audit Letter

Year ending 31 March 2018

Devon and Somerset Fire and Rescue Authority

27 August 2018



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Devon and Somerset Fire and Rescue Authority (the Authority) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Authority and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Authority's Audit and Performance Review Committee as those charged with governance in our Audit Findings Report on 27 July 2018.

Our work

Materiality	We determined materiality for the audit of the Authority's financial statements to be £1,578k, which is 2% of the Authority's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Authority's financial statements on 30 July 2018.
Whole of Government Accounts (WGA)	We completed work on the Authority's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Authority put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Authority on 30 July 2018.
Certificate	We certify that we have completed the audit of the accounts of Devon and Somerset Fire and Rescue Authority in accordance with the requirements of the Code of Audit Practice.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Authority financial statements (section two)
- assess the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Authority financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Executive Summary

Working with the Authority

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in July, delivering the audit before the new earlier 31 July deadline.
- VFM - we provided you with assurance and feedback on your arrangements for delivering efficiency, effectiveness and economy.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports.
- Providing training – we provided your teams with update training on financial accounts.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Authority's staff.

Grant Thornton UK LLP
August 2018

Audit of the Accounts

Our audit approach

Materiality

In our audit of the Authority's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Authority's accounts to be £1,578k, which is 2% of the Authority's gross revenue expenditure. We used this benchmark as, in our view, users of the Authority's financial statements are most interested in where the Authority has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration of £27k.

We set a lower threshold of £79k, above which we reported errors to the Audit and Performance Review Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts, the Narrative Report and the Annual Statement of Assurance published alongside the Statement of Accounts to check they are consistent with our understanding of the Authority and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach is based on a thorough understanding of the Authority's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Improper revenue recognition Under ISA (UK) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted for non-fees and charges income streams, because:</p> <ul style="list-style-type: none"> • There is little incentive to manipulate revenue recognition • Opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Devon and Somerset Fire and Rescue Authority, mean that all forms of fraud are seen as unacceptable 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p>Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. We identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • reviewed accounting estimates, judgements and decisions made by management • tested journal entries • reviewed unusual significant transactions 	<p>Our audit work did not identify any issues in respect of management override of controls.</p>

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of property, plant and equipment The Authority revalues its land and buildings on an annual basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • Reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • Reviewed the competence, expertise and objectivity of any management experts used. • Discussed with the Authority's valuer the basis on which the valuation was carried out, challenging the key assumptions. • Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding. • Tested revaluations made during the year to ensure they were input correctly into the Authority's asset register • Evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. 	<p>Our audit work did not identify any issues in respect of the valuation of property, plant and equipment.</p>

Audit of the Accounts

Significant Audit Risks (continued)

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability The Authority's LGPS pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none">• Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement.• Reviewed the competence, expertise and objectivity of the actuary who carried out the Authority's pension fund valuation.• Gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.• Reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.	<p>Our audit work did not identify any issues in respect of the valuation of the pension fund net liability.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Authority's financial statements on 30 July 2018, in advance of the earlier national deadline.

Preparation of the accounts

The Authority presented us with draft accounts in accordance with the national deadline of 31 May 2018 and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Authority's Audit and Performance Review Committee on 27 July 2018.

In addition to the key audit risks and findings reported above, we identified an issue with the evidence trail to support the approval of exit package. Specifically, the lack of formal minutes documenting the original and final approved settlement decision was, in our view, a significant deficiency in the internal controls operating over decision making in this matter.

The Authority retrospectively approved the minutes of the June 2017 GP Committee, where the original decision was taken, within the confidential (Part 2) session of the full Authority on 30 July 2018.

Annual Governance Statement and Narrative Report

We are required to review the Authority's Annual Statement of Assurance and Narrative Report. It published them on its website alongside the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Authority and with our knowledge of the Authority.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Devon and Somerset Fire and Rescue Authority in accordance with the requirements of the Code of Audit Practice.

We certified that we had completed the audit of the accounts for the Authority in accordance with the Code on 30 July 2018.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Authority in July 2018, we agreed a recommendation to address our findings:

- The Authority must develop realistic savings plans to bridge the budget gap in the Medium term Financial Plan.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

Value for Money conclusion

Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Medium Term Financial Planning</p> <ul style="list-style-type: none"> We reported in our audit plan that the Authority continues to face financial pressures with the 4 year settlement for 2016/17 to 2019/20 resulting in a 25% grant cut. In order to set a balanced budget for 2018/19 the Authority is proposing, as a short term solution, to reduce the revenue contribution to capital to bridge the budget gap. The budget report also highlights that savings of between £8.4m and £14.6m will need to be made by 2021/22 depending on the level of Council Tax increase. 	<p>We reviewed the Authority's Medium Term Financial Plan, including the assumptions and savings included within the modelling. We also considered the work being done by the Authority to identify the additional savings that it needs to make over this period.</p> <p>The Authority's outturn for 2017/18 was £320k below budget, which was transferred to earmarked reserves. At 31 March 2018 the Authority has reserves of £37.2m, with £31.9m being in earmarked reserves and £5.3m in the general reserve (which at over 7% of the annual budget is in excess of the 5% target set by the Authority).</p> <p>The Authority set a balanced budget for the 2018/19 financial year, with a Council Tax increase of 2.99% being agreed. Budgeted savings within this were £711k, consisting of £441k from authority pensions, £206k from estates and £89k from debt charges. The balanced budget position was achieved by reducing the revenue contribution to capital expenditure by £1,289k.</p> <p>The current MTFP runs to 2021/22 with the savings requirement over that period being between £8.4m and £14.6m depending on the level of council tax increase. The MTFP is based on detailed modelling assumptions in the Financial Planning Model, which go beyond the reported MTFP into 2022/23. These include inflation, pay and pension increases as well as anticipated reductions in grant funding, including the four year funding settlement accepted by the Authority. These assumptions have been reviewed and appear to be reasonable. The MTFP is updated regularly as a result of updated information on grant settlements, savings strategy and new cost pressures identified.</p>	<p>The Authority's MTFP has a gap of up to £14.6m over the 2019/20 - 2021/22 period. This represents a considerable challenge for the Authority given the savings it has had to make in recent years. The Authority must develop realistic savings plans to bridge the budget gap.</p> <p>On that basis we concluded the risk was sufficiently mitigated and the Authority has proper arrangements in place for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making</p>

Value for Money conclusion

Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Red One</p> <ul style="list-style-type: none"> We reported in our audit plan that in 2016/17 the Authority sought external advice in response to concerns over cross-charging between Authority and Red One Ltd, and governance arrangements generally. Reports were received as a result that made a number of recommendations, although one report noted that many were similar to recommendations that had been made previously but not yet actioned. A further review of the governance arrangements at Red One has been carried out. 	<p>We reviewed the progress made by the Authority in response to the recommendations from the reports received in 2016/17, and the more recent review, to ensure that appropriate action has been taken to address the issues identified.</p> <p>The last reported update to members in December 2017 demonstrates that the recommendations made in relation to Red One's governance and financial arrangements are now being taken forward. The report shows that recommendations are being tracked in an action plan. The Authority has now approved a revised governance framework for Red One and revised arrangements for the Non Executive Board of Red One, including the introduction of independent Non Executive Directors.</p>	<p>The Authority is making progress in implementing the recommendations in relation to Red One, with revised governance arrangements in place. Further efforts are required to ensure that all the issues identified are addressed and governance arrangements are fully effective at Red One. We will continue to monitor progress in this area as part of our 2018/19 VFM audit.</p> <p>On that basis we are satisfied that the risk is being properly mitigated.</p>

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and confirm there were no fees for the provision of non audit services.

Reports issued

Report	Date issued
Audit Plan	February 2018
Audit Findings Report	July 2018
Annual Audit Letter	August 2018

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Authority audit	33,820	33,820	33,820
Total fees	33,820	33,820	33,820

The planned fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Fees for non-audit services

Service	Fees £
Audit related services	
- None	Nil
Non-Audit related services	
- None	Nil

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The table above summarises all non-audit services which were identified.



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